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Lower Output to Revive Hog Prices in 1999

In 1998, hog prices tumbled to the lowest annual average since 1972, $31.67 per cwt—and the monthly average for December was $14 per cwt, the lowest December average since 1963. Responding to the run of low returns in 1998, U.S. producers reduced their breeding herds late in the year. Based on market hog inventory, pig crops, and farrowing intentions reported in USDA's December *Hogs and Pigs* report, pork production in 1999 is expected to total about 18.9 billion pounds, down from last year overall (less than 1 percent), with a sharp decline in the final quarter. With receding slaughter levels, lower production, and continued increases in net exports, hog prices are expected to rebound from the extreme lows in late 1998, rising throughout 1999 from the mid-$20's to near $40 per cwt, and averaging in the mid-$30's per cwt for the year.

Brazil's Financial Crisis & Potential Aftershocks

The intensifying financial crisis in Brazil, marked by a sharp devaluation of its currency in mid-January, has renewed concerns about the consequences for U.S. agriculture. Latin America and Asia together bought about 60 percent of U.S. agricultural exports last fiscal year, and Brazil's currency devaluation is already having repercussions in other countries in Latin America.

In the short run, Brazil's devaluation will have relatively little impact on U.S. agricultural trade with Brazil, though an expected reduction in U.S. agricultural exports and an increase in agricultural imports will likely widen the U.S. agricultural trade deficit with Brazil ($684 million in fiscal year 1998). In the longer run, the potential for effects on U.S. agricultural trade is greater, particularly if Brazil is unable to regain financial control and if the continuing crisis forces other Latin American countries to take measures to stay competitive—such as devaluing currencies or raising import tariffs.

Coffee Exporters Count on Higher Earnings

Brazil and other coffee exporting countries are expecting a smaller 1999/2000 Brazilian crop to draw down world supplies and reverse the 1998/99 downturn in prices and foreign exchange earnings. Prices for arabica coffee, milder in taste than robusta—and the type most widely consumed in the U.S.—have been lower since last summer due to sharply higher 1998/99 production, particularly in Brazil, which accounts for about one-third of world output.

The fortunes of coffee exporters depend increasingly on supply management by producers, because importers have become less willing to hold stocks to buffer the price volatility. Traditionally, U.S., European, and Japanese importers reacted to declining coffee prices by building up stocks. In recent years, however, U.S. and other importers and roasters have moved toward just-in-time inventory to avoid carrying costs. Because of this, prices will vary more than in the past.

Value-Enhanced Crops: Biotechnology's Next Stage

Biotechnology's next quest, to provide field crops with value-enhanced qualities for end-users—output traits—is underway. Biotechnology's first stage featured crops with improved agronomic qualities—input traits—valued by farmers, such as resistance to pests. The industry now visualizes a system in which farmers grow crops designed for the specific needs of end-users in food manufacturing, the livestock sector, and even the pharmaceutical industry. Breaking with agriculture's traditional supply-side orientation may not be easy, however. Whether biotechnology's second stage is a wave or a modest ripple will hinge on several economic and technical factors.

Farmers Sharpen Tools To Confront Business Risks

Risk management involves finding the combination of strategies most likely to achieve a desired level of return at an acceptable level of risk. Three risks that concern farmers most, according to USDA's 1996 Agricultural Resource Management Study, are uncertainty regarding commodity prices, declines in crop yields or livestock production, and changes in government law and regulation.

Farmers have a variety of tools for cutting risk, such as diversification of production across multiple enterprises, entering into production and/or marketing contracts, and keeping extra cash on hand for emergencies. Other strategies include crop or revenue insurance, futures market trading, and off-farm employment. When individual efforts to deal with financial stress fail and large numbers of farms face significant financial loss, the Federal government has stepped in to assist farmers with direct payments, loans, and other types of support. Most recently, the 1999 Agricultural Appropriations Act provided for $2.375 billion of emergency financial aid to farmers. Since farm business characteristics vary widely and operators' risk preferences differ, there can be no "one size fits all" approach to risk management.